



# Australian Bureau of Statistics

## 1352.0.55.093 - Research Paper: Refining the Stratification for the Established House Price Index (Methodology Advisory Committee), Jun 2008

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### Summary

#### About this Release

The Australian Bureau of Statistics publishes quarterly estimates of the change in the price of established houses in Australia based on a method that has developed over time and has always involved some form of stratification. The established house price index (HPI) methodology is currently based on attributes that can be broadly defined as the structural, locational and neighbourhood characteristics of suburbs. This approach to constructing the HPI has been assessed and the compilation process has brought to light issues concerning the limited ability of the current stratification to measure the pure price evolution of the housing stock. The price-based stratification approach introduced by the Reserve Bank of Australia in 2006 has also paved the way for an investigation into potential improvements to the current stratification method through the use of the long-term median price of a suburb as a stratification variable. In light of these developments, this paper explores the possibility of refining the stratification used to construct the HPI. A three-phase Quality Assessment Framework, supported by index sensitivity analysis, is used to analyse the effectiveness of competing stratification methods. Preliminary findings based on applying this framework indicate that a simpler stratification method - based on the long-term median price and the neighbourhood characteristics of a suburb - can provide a more accurate measure of the pure price evolution of the housing stock.

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